

EXECUTIVE SUMMARY

CERTIFICATE OF NEED EVALUATIONS

Manor Care of Meadow Park, Inc.

and

Patriots Landing Investments I, LLC

INTRODUCTION

Manor Care of Meadow Park, Inc.

This project is subject to Certificate of Need review as the increase in the number of skilled nursing beds at an existing skilled nursing facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(c) and 246-310-396(4).

Patriots Landing Investment I, LLC

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a) and 246-310-380.

PROJECT DESCRIPTIONS

Manor Care of Meadow Park, Inc.

Manor Care, Inc. is a Delaware Corporation with a principle place of business at 333 North Summit Street, in the city of Toledo, within the state of Ohio. It is not registered in Washington State, rather it is the parent company of four subsidiaries, one of which is registered in Washington.¹ [source: Business Risk Assessment Analysis, p2]

Heartland Employment Services

An Ohio corporation registered in the state of Washington. Heartland Employment Services is a direct employer of all corporate and support employees. The corporation does not own or operate any health care facilities, however, a branch of this entity owns and operates home care agencies throughout the United States.

HCRC, Inc.

A Delaware corporation that is not registered in Washington State. HCRC, Inc. is a subsidiary of Heartland Employment Services and the parent company of Health Care and Retirement Corporation of America, which is the direct owner and operator of a number skilled nursing facilities and the parent of subsidiaries that own and operate nursing home facilities.

MNR Finance Corporation

Another Delaware corporation that is that is not registered in Washington State and does not own or operate any skilled nursing facilities.

Manor Care of America, Inc.

Also a Delaware corporation not registered in Washington State and the parent corporation of Manor Care Health Services, Inc., another Delaware corporation. Manor Care Health Services, Inc. is the direct owner and operator of several skilled nursing facilities and the parent corporation of subsidiaries that own and operate nursing home facilities. Manor Care Health Services, Inc. is not registered in Washington State, however, it is the parent corporation of Manor Care of Meadow Park, Inc, which is registered in Washington.

¹ HCR Manor Care is the trade name used by the parent company, but it is not a legal entity.

As of the writing of this evaluation, Manor Care, Inc. is the second largest provider of long term services in the nation. Through its subsidiaries, Manor Care, Inc. owns, operates, or manages over 500 healthcare facilities, which includes skilled nursing centers, assisted living facilities, outpatient rehabilitation clinics, and hospice and home health offices across the nation. For nursing homes and assisted living facilities alone, Manor Care owns or operates over 300 in 32 states through its subsidiaries. For Washington State, Manor Care, Inc. owns and operates four skilled nursing facilities through its Manor Care of Meadow Park subsidiary; and the Heartland subsidiary owns and operates a home care agency and a Medicare certified home health agency in the state. The Washington State facilities and city of location are shown in the chart below. [source: November 3, 2004, supplemental information, pp1-2; Manor Care Website at www.hcr-Manor Care.com]

Skilled Nursing Facilities

Manor Care of Gig Harbor, Gig Harbor
Manor Care Health Services, Lynnwood
Manor Care Health Services, Spokane
Manor Care Health Services, Tacoma

Home Care and Home Health Agencies

Heartland Home Care, Seattle
Heartland Home Health Care Services, Seattle

Manor Care of Meadow Park, Inc

Through its subsidiaries, the healthcare facilities owned, operated, or managed by Manor Care, Inc. are grouped geographically, rather than corporately, into seven operating divisions:

Mid-Atlantic Midwest Mid-States East **West** South Central

Washington State is located in the West division [in bold above], and includes facilities owned and operated by Manor Care Health Services, Inc. or its subsidiary, Manor Care of Meadow Park, Inc. This application was submitted by Manor Care of Meadow Park, Inc. [source: November 3, 2004, supplemental information, pp1-2] For Certificate of Need purposes, Manor Care of Meadow Park, Inc. is considered the applicant, and will be referenced in this document as "MCMP."

This project proposes to increase the licensed capacity of Manor Care Health Services of Tacoma (MC-Tacoma) by from 124 to 144 beds. The planning area for this project is Pierce County. In this project, the applicant proposes to add 13,600 square feet of new construction and renovate 2,175 square feet of the existing building. Manor Care is currently operating 122 of its 124 licensed beds. The applicant proposes to add space for 29 beds, decreasing existing rooms by seven beds and re-instating the two beds currently licensed but not set up.

The estimated capital expenditure for this project is \$3,593,830. [source: November 4, 2004, supplemental information, Exhibit 11]]

The anticipated date of commencement of the project is December 2005, with an estimated date of completion as January 2007. Therefore, the first full year of operation is projected to be calendar/fiscal year 2008.

Patriots Landing Investment I, LLC

Patriots Landing Investment I, LLC (Patriots Landing), is a wholly owned subsidiary of TCO, LLC. TCO, LLC is, in turn owned by Gene E. Lynn (48.24%), Traci Lynn (9.82%), and Careage

Healthcare of California, Inc. (41.94%). Gene E. Lynn is the sole owner of Careage Healthcare of California. Gene E. Lynn and/or Careage HealthCare of California currently own or operate 16 healthcare facilities in California and Washington.

In addition to this project, Gene Lynn and/or Careage own or operate 16 healthcare facilities in Washington (9)² and California (7). Of those facilities, 4 are SNFs.

Patriots Landing proposes establishment of a new 80-bed skilled nursing facility in Dupont, in Pierce County, to be known as Patriots Landing Skilled Nursing Residence. The proposed nursing home would be part of a retirement community that also contains (or will contain) 25 private cottages, 85 independent living and 65 assisted living units.

Patriots Landing intends the nursing home to contain 60 beds staffed and equipped for general nursing home patients and 20 beds in a Special Care/Alzheimer's Unit. [source: application, p7]

Patriots Landing has identified a second company, Evergreen at DuPont, LLC, as the licensee and operator of the proposed nursing facility. Evergreen at DuPont LLC, is a to-be-formed entity that will be a wholly owned subsidiary of Evergreen Washington Healthcare, LLC. Evergreen Washington Healthcare, LLC, is a wholly owned subsidiary of Evergreen Healthcare. Evergreen Healthcare is owned by Andrew V. Martini (89.78%) and other unnamed shareholders. The applicant represents that no other party has more than a 4-5% share of Evergreen Healthcare.

Through its subsidiaries, Evergreen Healthcare operates 61 skilled nursing facilities in seven western states: Washington (14)³, Oregon (8), California (18), Montana (9), Nevada (6), Arizona (5) and Utah (1). Evergreen Healthcare is 89.78% owned by Andrew V. Martini. The identity of the parties owning the remaining 10.22% of Evergreen Healthcare was not disclosed by the applicants, though the statement was made that "No other party has more than a 4-5% share." [source: Application, p5; Responses to screening questions, p3]

The estimated capital expenditure associated with this project is \$6,800,000.

The anticipated date of commencement of the project is July 2005, with an estimated date of completion as August 2006. Therefore, the first full year of operation is projected to be calendar/fiscal year 2007.

CONCLUSIONS

Manor Care of Tacoma

For the reasons stated in this evaluation, Manor Care of Meadow Park's proposal to add 20 skilled nursing beds to the existing 124 beds at Manor Care Health Services of Tacoma, for a

² Robinswood Point (own), Foundation House at Northgate (own/manage), Heritage Court (own), Foundation House at Federal Way (own/manage), Mission Healthcare at Bellevue (own/manage), Evergreen North Cascades Health & Rehabilitation Center (own), Bessie Burton Skilled Nursing Facility (manage), Mission Healthcare at Bellevue (manage)

³ Canterbury House, Evergreen Enumclaw Health and Rehabilitation Center, Evergreen North Cascades Health and Rehabilitation Center, Health and Rehabilitation of North Seattle, Seattle Medical and Rehabilitation Center, Talbot Center for rehabilitation and Healthcare, Evergreen Americana Health and Rehabilitation Center, Evergreen Bremerton Health and Rehabilitation Center, Evergreen Centralia Health and Rehabilitation Center, Evergreen Manor Health and Rehabilitation Center, Evergreen Park Royal Health and Rehabilitation Center, Shelton Health and Rehabilitation Center, Whitman Health and Rehabilitation Center, Frontier Rehabilitation and Extended Care Center

facility total of 144, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

Patriots Landing

For the reasons stated in this evaluation, Patriots Landing, LLC's proposal to establish a new 80-bed skilled nursing facility in Dupont, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

**CONCURRENT REVIEW EVALUATION OF THE CERTIFICATE OF NEED APPLICATION
SUBMITTED BY MANOR CARE OF MEADOW PARK, INC., PROPOSING TO ADD 20
SKILLED NURSING BEDS TO THE EXISTING 120-BED NURSING HOME KNOWN AS
MANOR CARE HEALTH SERVICES OF TACOMA**

AND

**THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF PATRIOTS
LANDING INVESTMENT I, LLC, PROPOSING TO ESTABLISH A NEW 80-BED NURSING
HOME IN DUPONT TO BE KNOWN AS PATRIOTS LANDING SKILLED NURSING
RESIDENCE**

NURSING HOME CONCURRENT REVIEW TIMELINES AND PROCEDURES

Washington Administrative Code (WAC) 246-310-130 provides the timelines for the nursing home concurrent review cycles. Subsection (5)(c) provides the timeline for applications submitted for Pierce County. Under this timeline, letters of intent must be submitted during the month of August, applications must be submitted during the month of September, and the department must begin review of the project(s) on December 16 or the first working day after that date. [source: WAC 246-310-130]

The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care facilities be accomplished in a planned, orderly fashion and without unnecessary duplication. A concurrent review also allows the department flexibility in determining the best interests of the community's residents.

In the case of the projects submitted on behalf of Manor Care of Meadow Park and Patriots Landing, the department will issue one single concurrent review evaluation that makes a recommendation regarding whether both, neither, or one of the projects should be issued a Certificate of Need. This document is the concurrent review evaluation of the two projects.

PROJECT DESCRIPTION

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The estimated capital expenditure associated with this project is \$6,800,000.

The anticipated date of commencement of the project is July 2005, with an estimated date of completion as August 2006. Therefore, the first full year of operation is projected to be calendar/fiscal year 2007.

APPLICABILITY OF CERTIFICATE OF NEED LAW

Manor Care of Tacoma

This project is subject to Certificate of Need review as the increase in the number of skilled nursing beds at an existing skilled nursing facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(c).

Patriots Landing

This project is subject to Certificate of Need review as the construction, development, or other establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a) and 246-310-380.

APPLICATION CHRONOLOGY

| | |
|-------------------------------------------|--------------------------------------------|
| August 23, 2004 | Manor Care Letter of Intent Received |
| | Patriots Landing Letter of Intent Received |
| September 30, 2004 | Applications Received |
| October 1, 2004 through November 30, 2004 | Screening activities and responses |
| December 16, 2004 | Department Begins Review of Application |
| February 9, 2004 | Public Hearing Conducted |
| February 15, 2004 | End of Public Comment |
| May 21, 2005 | Rebuttal Comments Due ⁷ |
| May 2, 2005 | Department's Anticipated Decision Date |
| December 9 2005 | Department's Decision Date |

CONCURRENT REVIEW AND AFFECTED PARTIES

As directed under WAC 246-310-130(5)(c), the department reviewed the two projects under concurrent review. For each application, the only entity that sought and received affected person status under WAC 246-310-010 was each applicant. As a result, the department recognizes:

- Patriots Landing, LLC is an affected party for the application submitted on behalf of Manor Care of Meadow Park, Inc; and
- Manor Care of Meadow Park, Inc. is an affected party for the application submitted on behalf of Patriots Landing, LLC.

⁷ Under the concurrent review schedule in WAC 246-310-130, the rebuttal period is limited to 30 days, however on March 21, 2005, the department discovered additional public comment, provided prior to the end of the public comment period, that had not been distributed for rebuttal. Consequently, the applicant and affected parties were given until May 21 to provide rebuttal comments on the additional information.

SOURCE INFORMATION REVIEWED

- HCR Manor Care's Certificate of Need Application received September 30, 2004
- Patriots Landing's Certificate of Need Application received September 30, 2004
- HCR Manor Care's supplemental information received November 30, 2004, and December 1, 2004
- Patriots Landing's supplemental information received December 1, 2004
- Public comment received during the course of the review and on February 9, 2005, at the public hearing.
- HCR Manor Care's Rebuttal comments received February 24, 2005 and April 21, 2005
- Patriots Landing's Rebuttal comments received April 21, 2005
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002
- Data obtained from the US Census Bureau website <http://quickfacts.census.gov>
- Years 2003 and 2004 Medicaid cost report data provided by the Department of Social and Health Services
- Licensing and/or survey data provided by the Department of Social and Health Services
- Data obtained for nursing homes, adult family homes, and boarding homes from Department of Social and Health Services website www.aasa.dshs.wa.gov
- Business Risk Assessment review received June 22, 2005, from the Department of Social and Health Services' Office of Financial Recovery
- Information obtained from the applicant's website at www.hcr-Manor Care.com
- Certificate of Need Historical files
- Adult Family Home and Boarding Home Data obtained by The Gilmore Research Group received October 2005
- Revised Code of Washington 70.127 governing in-home service agencies
- Information obtained from the Centers for Medicare and Medicaid Services website at www.medicare.gov/nhcompare

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicants must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-360 (nursing home bed need method).⁸

CONCLUSIONS

Manor Care of Tacoma

For the reasons stated in this evaluation, Manor Care of Meadow Park's proposal to add 20 skilled nursing beds to the existing 124 beds at Manor Care Health Services of Tacoma, for a facility total of 144, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

Patriots Landing

For the reasons stated in this evaluation, Patriots Landing, LLC's proposal to establish a new 80-bed skilled nursing facility in Dupont, is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied.

⁸ Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6) and WAC 246-310-240(2) and (3).

A. Nursing Home Bed Need Method (WAC 246-310-360)

For all applications where the need for nursing home beds is not deemed met as identified in RCW 70.38.115(13), the [following] mathematical calculation will be used as a guideline and represent only one component of evaluating need.

As stated in the project description, both projects propose to add beds to Pierce County, one through expansion of an existing SNF, the other through establishment of an entirely new facility. The additional beds would be added to Pierce County's total bed count, and, as such, an applicant must demonstrate need for the additional beds. One component of evaluating need for additional SNF beds within a county is applying the nursing home bed need numeric method. That calculation is shown below.

The methodology, outlined in WAC 246-310-360, is a four-step process. The first step requires a computation of the statewide and planning area specific estimated bed need for the projection year.⁹ The second step requires a computation of the projected current supply ratio statewide and for each planning area. The third step requires a determination of the planning areas that will be under the established ratio, or over the established ratio in the projection year. The fourth, and final step, requires a comparison of the most recent statewide bed supply with the statewide estimated bed need.

Application of the first four steps of the methodology outlined above indicates that Washington State is projected to be under the 40/1,000 target ratio by 4,338 beds in year 2007—the projection year.

Step four provides further guidance if the current statewide bed supply is greater than or equal to the statewide estimated bed need, or if the current statewide bed supply is less than the statewide estimated bed need. Given that the current statewide bed supply is less than the statewide estimated bed need, the department must then determine the difference between the statewide estimated bed need and the statewide current bed supply, which is referenced as “statewide available beds.” The methodology then requires a comparison of whether the “statewide available beds” is sufficient to allocate to each planning area under the established 40/1,000 ratio enough beds to bring that planning area up to the established ratio. If there is not enough beds, the methodology directs the department to assign to each planning area under the established ratio a proportion of statewide available beds equal to the ratio of that planning area's bed need to reach the established ratio in the projection year. The proposed health planning area for this project is Pierce County. Application of this portion of step four to this planning area indicates that 496 additional beds could be added to bring the planning area to the established ratio in the projection year.

In conclusion, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population. Based solely on the numeric methodology, the department would conclude that additional nursing home beds are justified in Pierce County in the projection year 2007.

Manor Care

For this project, the applicant did not apply the numeric methodology to calculate need for additional beds in Pierce County.

⁹ For nursing homes applications submitted in the 2004 concurrent review cycle, 2007 is the projection year.

Patriots Landing

This applicant also did not apply the numeric methodology to calculate need for additional beds in Pierce County.

B. Need (WAC 246-310-210)

Manor Care of Tacoma

Based on the source information reviewed, the department determines that the application is not consistent with the applicable need criteria in WAC 246-310-210.

Patriots Landing

Based on the source information reviewed, the department determines that the application is not consistent with the applicable need criteria in WAC 246-310-210.

- (1) *The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need*

WAC 246-310-210 requires the department to evaluate all CN applications on the basis of the population's need for the service and determine whether other services and facilities of the type proposed are not, or will not be, sufficiently available or accessible to meet that need. Additionally, subsection (6) identifies the process to be used to evaluate this sub-criterion. Specifically, if the state is below the statewide estimated bed need, the department shall determine the need for nursing home beds, including distinct part long-term care units located in a hospital licensed under chapter [70.41](#) RCW, based on the availability of:

- 1) other nursing home beds in the planning area to be served; and
- 2) other services in the planning area to be served. Other services to be considered include, but are not limited to: assisted living (as defined in chapter [74.39A](#) RCW); boarding home (as defined in chapter [18.20](#) RCW); enhanced adult residential care (as defined in chapter [74.39A](#) RCW); adult residential care (as defined in chapter [74.39A](#) RCW); adult family homes (as defined in chapter [70.128](#) RCW); hospice, home health and home care (as defined in chapter [70.127](#) RCW); personal care services (as defined in chapter [74.09](#) RCW); and home and community services provided under the community options program entry system waiver (as referenced in chapter [74.39A](#) RCW). The availability of other services shall be based on data which demonstrates that the other services are capable of adequately meeting the needs of the population proposed to be served by the applicant.

Services provided or to be provided at both facilities include skilled nursing, rehabilitation, and a variety of therapies. Patriots Landing also proposes to operate a 20-bed special care/Alzheimer's unit.

Skilled Nursing Facilities—23 SNFs representing 2,689 beds

As of the writing of this evaluation, Pierce County has 2,689 skilled nursing facility (SNF) beds distributed among 23 community-based SNFs. Pierce County also has four state-owned SNFs – Washington Soldiers Home, Rainier School A, Rainier School C, and Rainier School E. Beds at these state-owned facilities are not regulated by Certificate of need and are not generally available to the public, so they are not discussed in this evaluation. Services provided at SNFs include skilled nursing services, including convalescent or chronic care, or both, for a period in excess of twenty-four consecutive

hours. Convalescent and chronic care may include but not be limited to any or all procedures commonly employed in waiting on the sick, such as administration of medicines, preparation of special diets, giving of bedside nursing care, application of dressings and bandages, and carrying out of treatment prescribed by a duly licensed practitioner of the healing arts. It may also include care of mentally incompetent or acutely ill persons. [source: RCW 18.51]

Eligibility for Medicare and Medicaid skilled nursing facility services is governed by the Centers for Medicare and Medicaid Services (CMS). Medicare covers skilled nursing facility services for as long as a patient is eligible and the patient's physician orders the services. Eligibility requirements for coverage by Medicare includes a hospital stay for three consecutive days prior to being admitted into the skilled nursing facility; further the skilled care must be required on a daily basis and the services must be those that, as a practical matter, can only be provided in a skilled nursing facility on an inpatient basis. [source: CMS Handbook: Medicare Coverage of Skilled Nursing Facility Care]

Of the total of 2,689 beds at the SNFs in the county, 2,480 are currently licensed, and 209 are banked under the alternate use provisions of RCW 70.38.111(8)(a) and WAC 246-310-395. RCW 70.38.111(8)(d) states:

"Nursing home beds that have been voluntarily reduced under this section [RCW 70.38.111(8)] shall be counted as available nursing home beds for the purpose of evaluating need under RCW [70.38.115](#)(2) (a) and (k) so long as the facility retains the ability to convert them back to nursing home use under the terms of this section."

WAC 246-310-010 states:

"Bed supply," means within a geographic area the total number of:

- *"Nursing home beds which are licensed or certificate of need approved but not yet licensed or beds banked under the provisions of RCW [70.38.111](#) (8)(a) or where the need is deemed met under the provisions of RCW [70.38.115](#) (13)(b), excluding:*
- *Those nursing home beds certified as intermediate care facility for the mentally retarded (ICF-MR) the operators of which have not signed an agreement on or before July 1, 1990, with the department of social and health services department of social and health services to give appropriate notice prior to termination of the ICF-MR service;*
- *New or existing nursing home beds within a CCRC which are approved under the provisions of WAC [246-310-380](#)(5); or*
- *Nursing home beds within a CCRC which is excluded from the definition of a health care facility per RCW [70.38.025](#)(6); and*
- *Beds banked under the provisions of RCW [70.38.115](#) (13)(b) where the need is not deemed met.*
- *Licensed hospital beds used for long-term care or certificate of need approved hospital beds to be used for long-term care not yet in use, excluding swing-beds.*

As required above, the department must count all 2,689 beds as available in the community.

The 23 SNFs in the planning area and the number of licensed and banked beds is shown in Table I, on the following page[source: Certificate of Need Bed Supply Log, updated October 15, 2005]

Table I
Pierce County 2005 Bed Count by Skilled Nursing Facility

| Name of Facility | # of Licensed Beds | # of AU Banked Beds | Total # of Beds |
|-----------------------------------------|--------------------------|------------------------|--------------------|
| Bel Air Rehab & Specialty Care | 110 | 10 | 120 |
| Cottesmore of Life Care | 108 | 0 | 108 |
| Franciscan Health Care Center at Tacoma | 123 | 0 | 123 |
| Franke Toby Jones | 43 | 0 | 43 |
| Georgian House | 73 | 0 | 73 |
| Heartwood Extended Health Care | 120 | 0 | 120 |
| Heritage Rehab & Specialty Care | 74 | 15 | 89 |
| Highlands Dementia Care Center, The | 86 | 0 | 86 |
| Lakewood Health Care Center | 80 | 0 | 80 |
| Life Care Center of Puyallup | 140 | 52 | 192 |
| Linden Grove Health Care Center | 130 | 0 | 130 |
| Manor Care Health Services | 120 | 0 | 120 |
| Manor Care of Gig Harbor | 124 | 0 | 124 |
| Nisqually Valley Care Center | 63 | 0 | 63 |
| Orchard Park | 147 | 0 | 147 |
| Park Rose Care Center | 139 | 67 | 206 |
| Rainier Vista Care Center | 120 | 0 | 120 |
| Regency at Puyallup Rehab Center | 96 | 0 | 96 |
| Regency at Tacoma Rehab Center | 150 | 0 | 150 |
| Rocky Bay Health Care Facility | 30 | 0 | 30 |
| Tacoma Lutheran Home | 187 | 27 | 214 |
| Tacoma Rehab & Specialty Care | 97 | 38 | 135 |
| University Place Care Center | 120 | 0 | 120 |
| Total of Nursing Home Beds | 2,480 | 209 | 2,689 |

To further assist in its determination whether patients proposed to be served by either Manor Care of Tacoma or Patriots Landing would also be candidates for the existing SNFs in the county, the department compared each applicant's average nursing hours per patient day with the existing SNF averages in the county. The comparison is summarized in Table II below. [source: Medicaid Cost Report data for years 2003 and 2004]

Table II
Average Nursing Hours Per Patient Day Comparison

| | RN/PD | LPN/PD | NA/PD | Total NH/PD |
|----------------------------------|-------|--------|-------|-------------|
| Manor Care of Tacoma | 0.28 | 0.77 | 2.03 | 3.08 |
| Patriots Landing | 0.47 | 0.47 | 2.40 | 3.34 |
| Year 2003 Pierce County Averages | 0.35 | 0.87 | 2.30 | 3.52 |
| Year 2004 Pierce County Averages | 0.32 | 0.90 | 2.28 | 3.50 |

Based on the summary shown in Table II, both applicants' patients are potentially lower acuity comparable to the average patient accepted by the existing SNFs in the county. However, when comparing each applicant's proposed RN, LPN, and NA hours per patient day to each individual facility in the county, the department concludes that MC-Tacoma's projected total nursing hours per patient day are lower than any other facility in the county

and are lower than that facility's own nursing hours in 2003 and 2004. Patriots Landing's nursing hours per patient day are lower than 17 of the county's 23 facilities in 2003 and lower than 16 of the other facilities' 2004 averages. [source: MC-Tacoma application, p22; Patriots Landing application, p39; and Medicaid Cost Report data-2003 and 2004]

In summary, the department concludes that the patients proposed to be served by the applicants would also be appropriate candidates for services by the existing SNFs in the planning area.

Home Health Services

Home health services means services provided to ill, disabled, or vulnerable individuals. Generally, a home health patient is homebound, or normally unable to leave home unassisted.¹⁰ Home health services include skilled nursing, home health aide, medical social work, a variety of therapies, and home medical supplies or equipment services. [source: RCW 70.127.010] Home health services are typically provided to patients discharged to their homes by a long-term care facility or hospital for a lower level of care.

Eligibility for Medicare and Medicaid home health services is also governed by CMS. Medicare covers home health services for as long as a patient is eligible and the patient's physician orders the services; however, skilled nursing care and home health aide services are only covered on a part-time or "intermittent" basis. This means there are limits on the number of hours per day and days per week that a patient may receive skilled nursing or home health aid services. Those limits include skilled nursing care needed fewer than seven days each week or less than eight hours each day over a period of 21 days. Medicaid may help with medical costs for some patients, however, to qualify for Medicaid, a patient must be considered a low income patient. [source: CMS Handbook: Medicare and Home Health Care]

As of the writing of this evaluation, the planning area has ten home health agencies, and of those, five are Medicare certified. Given that home health care is provided at the patient's residence, capacity for a home health agency is typically measured by its ability to retain or recruit additional staff to meet the needs of the agency's visits. Based on the information above, the department concludes that the home health setting may be appropriate for a number of patients described within the application.

Hospice Services

Hospice programs are designed to offer symptom and pain management to terminally ill patients, and emotional, spiritual, and bereavement support for the patient and family in the final stages of the patient's life. Hospice services may be provided either in the patient's home or within an assisted living or skilled nursing center. [source: RCW 70.127.010] The planning area has four Medicare certified hospice agencies. One of those agencies, Franciscan Home Care and Hospice, also operates a 20-bed hospice care center. While respite care is generally among the services to be provided in a SNF, the projected volume of respite care to be provided at either facility was not indicated. During the course of this review, Franciscan Home Care and Hospice did not provide comment on the proposals. Based on this information, the department concludes that the hospice setting would be considered unsuitable for the majority of skilled nursing facility patients described within this application.

¹⁰ To be homebound means that leaving home takes considerable and taxing effort. [source: CMS Handbook: Medicare and Home Health Care]

As of October 2005, there are 201 adult family homes operating 1,096 beds within Pierce County. Adult family home means a residential home in which a person or persons provide personal care, special care, room, and board to more than one but not more than six adults who are not related by blood or marriage to the person or persons providing the services. [source: RCW 70.128.010] "Personal care" means both physical assistance and/or prompting and supervising the performance of direct personal care tasks as determined by the resident's needs. Personal care services do not include assistance with tasks performed by a licensed health professional. "Special care" means care beyond personal care services as defined above. [source: WAC 388-76-540]

Additionally, as of October 2005, there are 58 boarding homes operating a total of 2,899 beds within Pierce County. A boarding home means any home or other institution that provides board and domiciliary care to seven or more residents. "Domiciliary care" is defined as 1) assistance with activities of daily living provided by the boarding home either directly or indirectly; or 2) health support services, if provided directly or indirectly by the boarding home; or 3) intermittent nursing services, if provided directly or indirectly by the boarding home. [source: WAC 388-78A-020]

In previous SNF applications reviewed by CN staff, representatives from the Department of Social and Health Services (DSHS) have stated, "on the average, these types of facilities [adult family homes and boarding homes] are usually about 85% occupied." However, neither adult family homes nor boarding homes are required to report occupancy data to any regulatory or data gathering entity, which includes its own licensing agency--DSHS. Therefore, the basis for the 85% average occupancy within these two settings has been unavailable and unclear.

To assist in its determination of whether adult family homes or boarding homes are available to meet the needs of the SNF patients in the county, the department enlisted the services of The Gilmore Research Group (GRG) located in the Pacific Northwest. GRG provides research consultation, probability sampling, and data for analysis. For this project, GRG conducted telephone interviews with managers or people in positions of authority at adult family homes and boarding homes in the planning area. The purpose of the interviews was to learn more about the capacity and limitations of these facilities as alternatives to nursing home services. [source: The Gilmore Research Group website and October 18, 2005, report, p1]

For Pierce County, GRG contacted 168 of the total of 201 adult family homes (or 84% of the total adult family homes) representing 992 beds and 55 boarding homes (or 95% of the total boarding homes) representing 3,390¹¹ beds. A summary of the GRG research is shown below.

Adult Family Homes—168 homes representing 992 beds

Below is a breakdown of the payer sources accepted at the 168 homes contacted by GRG.

¹¹ Contacted BH facilities reported more licensed beds than DSHS data indicates in the planning area

| Payer Sources Accepted | # of AFHs | # of beds | % of Beds (992) |
|------------------------------------|------------------|------------------|------------------------|
| Both Medicare and Medicaid | 104 | 593 | 59.8% |
| Medicare only (not included above) | 4 | 22 | 2.2% |
| Medicaid only (not included above) | 41 | 282 | 28.4% |
| Private Pay only | 19 | 95 | 9.6% |
| Totals | 168 | 992 | 100% |

As shown in the chart above, of the 168 AFH contacted, 104 (or 61.9%) accept both Medicare and Medicaid patients which represents 593 or 59.8% of the total AFH beds. In addition to the 104 AFHs that accept both payer sources, 4 more homes would accept only Medicare patients, which increases the percentage of Medicare beds to 62% of the total. Another 41 AFH would accept only Medicaid patients, which increases the percentage of Medicaid beds to 90.4% of the total. As shown in the chart above, 19 AFHs, representing 95 beds, accept only private pay patients. Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will focus on the 149 homes that accept either Medicare or Medicaid patients.

GRG also requested the AFH representative to identify any limitations in the types of patients accepted into the facility. Examples of limitations identified by the AFH representatives include:

- non-smokers only;
- ambulatory patients only;
- no HIV/AIDS or terminally ill patients;
- no bariatric [obese] patients;
- no diabetic patients; and
- no mental health or violent behavior patients.

Of the 155 homes accepting either Medicare or Medicaid patients, only 34 offered services with no limitations—representing 181 AFH beds. Further, of the 34 facilities and 181 beds—32 beds were vacant at the time of the survey, which represents 82.3% occupancy of the 34 facilities. Representatives of the 34 facilities stated that their current number of vacant beds is slightly higher than their facilities' typical vacancy. The 34 facilities reported a total typical vacancy of 12 beds, for a typical occupancy of 93.4%. In summary, while a portion of SNF patients may be served in AFHs, the planning area AFHs that could serve the SNF patients have limitations or few vacancies.

Boarding Homes—55 homes representing 3,390 beds

Below is a breakdown of the payer sources accepted at the 55 homes contacted by GRG:

| Payer Sources Accepted | # of BHs | # of beds | % of Beds (3,390) |
|------------------------------------|-----------------|------------------|--------------------------|
| Both Medicare and Medicaid | 19 | 970 | 28.6% |
| Medicare only (not included above) | 3 | 120 | 3.5% |
| Medicaid only (not included above) | 17 | 1,436 | 42.4% |
| Private Pay only | 16 | 864 | 25.5% |
| Totals | 55 | 3,390 | 100% |

As shown in the chart above, of the 55 BH contacted, 19 (or 35%) accept both Medicare and Medicaid patients which represents 970 or 28.6% of the total BH beds. In addition to the 19 BHs that accept both payer sources, 3 more BHs would accept only Medicare

patients, which increases the percentage of Medicare beds to 32.1% of the total. Another 17 BH would accept only Medicaid patients, which increases the percentage of Medicaid beds to 74.5% of the total. As shown in the chart above, 16 BH, representing 864 beds, accept only private pay patients. Given that the majority of SNF patients are Medicare or Medicaid recipients, this portion of the evaluation will focus on the 39 homes that accept either Medicare or Medicaid patients.

GRG also requested the BH representative to identify any limitations in the types of patients accepted into the facility. Of the 39 BH, 36 had limitations. Examples of limitations identified by the BH representatives include:

- ambulatory patients only;
- no patients requiring skilled nursing care;
- no bariatric [obese] patients; and
- no mental health or violent behavior patients.

Of the 36 boarding homes accepting either Medicare or Medicaid patients, only 2 offered services with no limitations—representing a total of 288 BH beds. Further, of the 2 facilities and 288 beds, 28 beds were vacant at the time of the survey, which represents a 90% occupancy of the 2 facilities. Representatives of the 2 facilities stated that their current number of vacant beds is not a typical representation of the facility's vacancy, or lack of vacancy. Those two homes typically have a total of 14 vacant beds, which represents a 95% typical occupancy. In summary, as with the AFH above, while a few SNF patients may be served in BHs, most SNF patients would not be candidates for the BH setting because of BH limitations and lack of vacancies

Manor Care of Tacoma (MC-Tacoma)

To assist in its demonstration of need for an additional skilled nursing facility in Pierce County, MCMP provided documentation to support its four assertions restated below. [source: Application, pp10-12 November 29, 2004, supplemental information, pp3-7]

- the demographic profile of Pierce County identifies a 75+ population that is projected to increase eight percent and an 85+ population that will increase 20 percent by 2008;
- the facility's services are in high demand;
- the county has a nursing bed to 65+ population ratio significantly below the state average and the state standard
- 51% of the age 75+ population of Pierce County lives within five miles of MC-Tacoma. Adding beds to MC-Tacoma will improve access to nursing care for those who most need it.

Based on the documents provided by the applicant to support its above assertions, MCMP concluded that additional nursing home capacity is necessary in Pierce County accommodate increased numbers of residents age 65+, particularly those who are age 75+ and 85+, who are among the most likely users of nursing homes. [source: Application, p10-12]

Four SNFs in the planning area provided information in opposition to this project related to these criteria. [source: February 15, 2005, public comment and public hearing documents submitted by each facility] Additionally, comments in opposition were provided by the following four entities:

- Department of Social and Health Services, Aging and Adult Administration Division [source: December 16, 2004, public comment]

- Burton C. LeVee, owner of Roo-Lan Healthcare, a SNF located in Lacey, in Thurston County [source: February 11, 2005, public comment]
- Avamere Health Services, owner of five facilities in Tacoma [source: February 13, 2005, public comment]

In order to assess these comments and concerns and to examine skilled nursing care in the planning area more closely, the department used data submitted by the applicant, data submitted in support of the application, and data submitted in opposition to the application. Further, the department reviewed historical cost reports obtained from DSHS. This information includes annual Medicaid cost report raw data and summaries for 2003 and 2004 for all Washington State SNFs--both community and hospital-based--eligible to provide Medicaid services for Washington State residents. A summary of the department's review is shown below by topic, and excerpts of the comments provided in opposition are addressed by topic where appropriate.

Population growth in Pierce County

MCMP asserts that population growth in the planning area is significant and nursing home beds have not increased in several years. The existing providers did not comment on this assertion made by the applicant.

To evaluate this assertion, the department obtained population data from the Office Financial Management (OFM) for both Washington State and Pierce County. In January 2002, OFM released new county and state projections for the Growth Management Act. The projection series starts with the year 2000 census as a base and uses actual growth trends through the 1990s and prior historical periods to develop county growth expectations. In January 2004, OFM published a tracking report to evaluate how the annual population estimates for 2001 through 2003 line up with the 2005 Growth Management Act projections.¹² The tracking report provided the following summaries regarding population growth in Washington.

- one-third of the counties are tracking closely--within one percent--of the 'intermediate' series range;¹³
- all but two counties (Franklin and Pend Oreille) are tracking within the high and low projection series range; and
- about 70% of the counties are tracking below their intermediate projection series.

The OFM document shows that Pierce County is tracking slightly above the intermediate series.

On June 28, 2005, OFM provided a press release regarding Washington State growth. Within that press release, OFM indicates that Washington State's population has grown approximately 1.4%, in the past year, which is slightly higher than the 1.1 % growth in the previous year. Further, the document identified the fastest growing counties based on the percentage of change since the 2000 census. Those counties are Benton, Clark, Franklin, and San Juan. Pierce County is identified within this document as 9th in the state for fast growing counties on a percentage basis, with the second largest numeric growth. [source: OFM data]

¹² The full tracking report can be obtained at <http://www.ofm.wa.gov/pop/index/htm#growth>.

¹³ Projections are provided by three series: low, intermediate, and high. Low series projections would project a slower growth than both the intermediate or high series. Under usual and normal circumstances, the CN Program bases its projections on the intermediate series.

The department also compared Pierce County's percentage of persons 65 and older with the state. That comparison is shown in the chart below.

| Area | 2005 Population Estimate | % change from 2000-2005 | # of persons 65 & older | % of persons 65 & older |
|------------|--------------------------|-------------------------|-------------------------|-------------------------|
| Washington | 6,256,400 | 6.15% | 712,092 | 11.4% |
| Pierce | 755,900 | 7.86% | 76,989 | 10.2% |

As shown above, the planning area's overall population growth is larger and its percentage of persons 65 and older is slightly lower when compared to the state.

The chart below compares Pierce County's growth with the four counties identified by OFM as the fastest growing counties -- Benton, Clark, Franklin, and San Juan. That comparison is shown below.

| County | 2005 Population Estimate | % change from 2000-2005 | # of persons 65 & older | % of persons 65 & older |
|----------|--------------------------|-------------------------|-------------------------|-------------------------|
| Pierce | 755,900 | 7.86% | 76,989 | 10.2% |
| Franklin | 60,500 | 22.60% | 4,538 | 7.5% |
| Clark | 391,500 | 13.40% | 39,150 | 10.0% |
| Benton | 158,100 | 10.97% | 16,601 | 10.5% |
| San Juan | 15,500 | 10.11% | 3,209 | 20.7% |

As shown above, Pierce County's percentage of persons 65 and older is higher than all counties, with the exception of San Juan. Finally, the department compared the [planning area's age 65 and older population growth to the state as a whole.

| Area | Year 2000 # of persons 65 & older | Year 2005 # of persons 65 & older | % change from 2000-2005 |
|------------|-----------------------------------|-----------------------------------|-------------------------|
| Washington | 662,148 | 712,092 | 6.15% |
| Pierce | 61,062 | 75,560 | 7.4% |

As shown above, the planning area's percentage of growth in the age 65+ group is larger than the state as a whole. Based on OFM data and US Census Bureau data sources, the department concurs with the applicant regarding growth in the county.

The facility's services are in high demand

MCMP notes that in the first nine months of 2004, MC-Tacoma turned away 135 potential residents for lack of available beds. MCMP was unable to determine whether those patients were served at other SNFs or were placed in alternate settings. MCMP also referenced increasing occupancy rates in Pierce County as indicative of additional need

In response, the existing providers submitted extensive comments regarding the utilization of their facilities and asserted that the occupancy in the county is not high. The providers indicate that adequate beds are available to the residents and an additional provider in the county is not necessary.

As previously stated, there are 2,689 beds distributed among ten SNFs in the planning area. Of the 2,689 beds, 2,480 are currently licensed and 209 are currently banked under alternate use, a. [source: Certificate of Need Bed Supply Log, November 15, 2005] RCW 70.38.111(8) allows a SNF to voluntarily reduce or "bank" a number of its licensed beds to

provide alternative services or otherwise enhance the quality of life for its residents. Once approved, the beds that are banked are de-licensed by DSHS. Additionally, beds banked under this provision may be banked for four years, with an option to renew for another four years, for a maximum bed banking of eight years. To convert beds back to nursing home beds under these provisions, the SNF must:

- 1) maintain eligibility for the beds currently banked; and
- 2) provide a minimum of 90 days notice to the CN Program that it intends to re-license the beds.¹⁴

RCW 70.38.111(8)(d) requires the department to count beds banked under alternate use as available nursing home beds for the purpose of evaluating need for additional beds in CN applications. Given banked beds may be converted to skilled nursing use after a 90 day notice, it is reasonable to assume that they are, in fact, available.

The beds banked under alternate use are counted in the numeric bed projection methodology, which projects 496 additional beds could be added to Pierce County to bring the planning area to the established 40/1,000 ratio in projection year 2007.

For DSHS cost reporting purposes, facility occupancy is reported on the number of licensed beds within a facility. Tables III on the following two pages summarize the occupancy of licensed SNF beds in operation in years 2003 and 2004 at the total of 23 SNFs in Pierce County. [source: Year 2003 and 2004 DSHS cost report data and Year 2003 and 2004 CHARS data]

¹⁴ Additional requirements for converting beds back to skilled nursing use are found in RCW 70.38.111(8).

Tables III
Pierce County Year 2003 Number of Beds and Average Occupancy

| | # of Lic'd Beds | Bed Occp'y % | # of Lic'd Beds Available | Plus AU/FFC Banked Beds |
|-----------------------------------------|--------------------|-----------------|------------------------------|----------------------------|
| Bel Air Rehab & Specialty Care | 110 | 86.00% | 15 | 10 |
| Cottesmore of Life Care | 108 | 88.00% | 13 | |
| Franciscan Health Care Center at Tacoma | 123 | 85.00% | 18 | |
| Franke Toby Jones | 43 | * | 0 | |
| Georgian House | 73 | 97.00% | 2 | |
| Heartwood Extended Health Care | 120 | 96.00% | 5 | |
| Heritage Rehab & Specialty Care | 74 | 73.00% | 20 | 15 |
| Highlands Dementia Care Center, The | 86 | 92.00% | 7 | |
| Lakewood Health Care Center | 80 | 95.00% | 4 | |
| Life Care Center of Puyallup | 140 | 84.00% | 22 | 62 |
| Linden Grove Health Care Center | 130 | 95.00% | 6 | |
| Manor Care Health Services | 124 | 90.00% | 12 | 1 |
| Manor Care of Gig Harbor | 120 | 93.00% | 8 | |
| Nisqually Valley Care Center | 63 | 77.00% | 14 | |
| Orchard Park | 147 | 86.00% | 21 | 67 |
| Park Rose Care Center | 139 | 66.00% | 47 | |
| Rainier Vista Care Center | 120 | 95.00% | 6 | |
| Regency at Puyallup Rehab Center | 96 | 82.00% | 17 | 42 |
| Regency at Tacoma Rehab Center | 150 | 76.00% | 36 | 3 |
| Rocky Bay Health Care Facility | 30 | ** | 0 | |
| Tacoma Lutheran Home | 189 | 92.00% | 15 | 19 |
| Tacoma Rehab & Specialty Care | 97 | 83.00% | 16 | 42 |
| University Place Care Center | 120 | 88.00% | 14 | |
| Totals/ Average Occupancy | 2,482 | 86.6% | 318 | 261 |

*This facility does not contract with either Medicare or Medicaid and is not required to report data to DSHS.

**This facility is limited to treating developmentally disabled patients and does not report data to DSHS

Pierce County Year 2004 Number of Beds and Average Occupancy

| | # of Lic'd Beds | Bed Occp'y % | # of Lic'd Beds Available | Plus AU/FFC Banked Beds |
|-----------------------------------------|--------------------|-----------------|------------------------------|----------------------------|
| Bel Air Rehab & Specialty Care | 110 | 0.85 | 16 | 10 |
| Cottesmore of Life Care | 108 | 0.83 | 18 | |
| Franciscan Health Care Center at Tacoma | 123 | 0.86 | 17 | |
| Franke Toby Jones* | 43 | | 0 | |
| Georgian House | 73 | 0.97 | 2 | |
| Heartwood Extended Health Care | 120 | 0.97 | 4 | |
| Heritage Rehab & Specialty Care | 74 | 0.75 | 18 | 15 |
| Highlands Dementia Care Center, The | 86 | 0.93 | 6 | |
| Lakewood Health Care Center | 80 | 0.96 | 3 | |
| Life Care Center of Puyallup | 140 | 0.89 | 15 | 62 |
| Linden Grove Health Care Center | 130 | 0.97 | 4 | |
| Manor Care Health Services | 124 | 0.93 | 9 | 1 |
| Manor Care of Gig Harbor | 120 | 0.91 | 11 | |
| Nisqually Valley Care Center | 63 | 0.85 | 9 | |
| Orchard Park | 147 | 0.87 | 19 | 67 |
| Park Rose Care Center | 139 | 0.66 | 47 | |
| Rainier Vista Care Center | 120 | 0.96 | 5 | |
| Regency at Puyallup Rehab Center | 96 | 0.78 | 21 | 16 |
| Regency at Tacoma Rehab Center | 150 | 0.77 | 34 | 3 |
| Rocky Bay Health Care Facility** | 30 | | 0 | |
| Tacoma Lutheran Home | 187 | 0.91 | 17 | 27 |
| Tacoma Rehab & Specialty Care | 97 | 0.89 | 11 | 38 |
| University Place Care Center | 120 | 0.86 | 17 | |
| Totals/ Average Occupancy | 2,480 | 87.5% | 303 | 239 |

*This facility does not contract with either Medicare or Medicaid and is not required to report data to DSHS.

**This facility is limited to treating developmentally disabled patients and does not report data to DSHS

Certificate of Need records reveal that the 10 beds banked under alternate use at Bel Air Rehab were banked effective December 15, 1999, and extended for an additional four years, to expire on December 15, 2007.

Heritage Rehab has 15 beds originally banked effective December 15, 1999. The banking on those beds were extended for an additional four years and expire on December 15, 2007.

Life Care Center of Puyallup banked 52 beds on September 1, 2001. The banking of those beds will expire on September 1, 2006. That facility also banked 10 additional beds on October 1, 2001. Life Care Center of Puyallup failed to timely notify the department of its intent to extend the banking on those 10 beds which, therefore, expired October 1, 2005, leaving a total of 52 beds banked at that facility.

Manor Care of Tacoma, one of the applicants in this review, banked 1 bed on July 1, 1997. The banking of that bed was extended for another four years and expired on July 1, 2005, leaving no beds banked at that facility.

Orchard Park banked 44 beds on August 8, 2000, and extended the banking on those beds until August 8, 2008. Orchard Park also banked 23 beds on May 1, 2003. Unless extended, the banking of those beds will expire May 1, 2007.

Regency at Puyallup Rehab Center banked a total of 42 beds between 1995 and 2001. The banking of 26 of those beds expired in 2003. The remaining banked beds expired upon a change of ownership of the facility on March 1, 2005, leaving no banked beds.

Regency at Tacoma Rehab Center banked 3 beds in July 2001. Those three beds expired upon a change of ownership of the facility on March 1, 2005, leaving no banked beds.

Tacoma Lutheran Home banked 31 beds on January 1, 2000. The banking of only 25 of those beds was extended in 2004, with 9 beds expiring and the remaining 25 beds to expire January 1, 2008. 2 additional beds were banked on March 1, 2004. Unless the banking on those two beds is extended, they will expire on March 1, 2008.

Tacoma Rehab banked 42 beds effective December 15, 2000. As a result of settlement of a dispute with the Department of Health concerning eligibility of some of those beds for continued banking, that facility continues to have 38 beds banked with an expiration date of March 28, 2008.

The net result of the changes detailed above is that the total of beds banked under alternate use in Pierce County stands at 209 as of the writing of this evaluation.

Additionally, shown in Tables III, in year 2003, with 261 beds banked under alternate use, the planning area's average occupancy was 86.6%. In year 2004, with 2 fewer beds licensed and a total of 239 beds banked under alternate use, the planning area occupancy increased by slightly less than one percent, from 86.6% to 87.5%. Both occupancy percentages are slightly above the statewide average for years 2003 and 2004 of 83% and 86%, respectively.

In conclusion, in addition to the 2,480 licensed and 209 banked SNF beds available in the planning area, the department determined an average of 14 AFH beds and 12 BH beds could be available to the residents of the planning area, for a total of 2,715 SNF or alternative beds available. Calculating the planning area bed to population ratio of persons 65 and older reveals that the planning area's ratio would increase from its current 34.9/1,000 to 35.3/1,000. Additionally, adding the 20 beds proposed in this project and the 80 beds proposed by Patriots Landing to the 2,715 available beds, for a total of 2,815 beds, brings the planning area's ratio to 36.6/1,000. Both ratios continue to be under the 40/1,000 ratio used for projecting total bed need for SNFs in the state and within a planning area.

MCMP asserts that additional beds should be added to MC-Tacoma because the facility is in high demand and it has had to turn away admissions because of a lack of beds. However, the department must consider all available beds within the county, rather than one facility's utilization. As shown in Tables IV, while the average occupancy of MC-Tacoma was 90% for 2003 and 93% for 2004, according to department calculations, an average of 11-12 beds were available in MC-Tacoma alone. In addition to the 11-12 beds at MC-Tacoma, the county had another 303 licensed beds available in 2004, without counting the banked beds or any available AFH or BH beds within the county.

51% of the age 75+ population of Pierce County lives within five miles of MC-Tacoma

WAC 246-310-010 states:

"Planning area" means each individual county designated by the department as the smallest geographic area for which nursing home bed need projections are developed, except as follows:

- *Clark and Skamania counties shall be one planning area.*
- *Chelan and Douglas counties shall be one planning area.*

As noted above, the smallest area for consideration in evaluation of nursing home bed need is an entire county. Consequently, the age distribution within five miles of MC-Tacoma is of no moment in this review.

Based on the information provided during the review of this project and research by Certificate of Need staff, the department concludes that need for additional skilled nursing beds in Pierce County is not supported by the data. Further, the applicant failed to demonstrate that existing providers in Pierce County are neither available nor accessible to the residents of the county. As a result, the department concludes that this sub-criterion is not met.

Patriots Landing

In addition to observing that Pierce County is below the 40/1,000 bed-to-population ratio, Patriots Landing provided two major rationales for approval of its project:

- A significant number of retired military personnel in the area; and
- Need for additional nursing homes in "West Pierce County"

Nursing Home Needs of Retired Military Personnel

Patriots Landing states that the proposed nursing home would be part of a larger community "...specifically targeted to the needs of retired career military residing in and around Pierce County." [source: application, p14] Patriots Landing provided a description of the various military facilities in the Puget Sound region and the number of active duty personnel at these facilities. Patriots Landing also provided estimates from the Tacoma-Pierce County Chamber of Commerce that suggest that Pierce County is home to approximately 30,000 retired career military personnel.

Patriots Landing provided several letters of support from area residents and businesses supporting the project. Additionally, the department received several letters from area residents requesting approval of the project. Several area nursing homes provided comment opposing adding additional nursing home beds to the county, as discussed in the Manor Care section above, citing available capacity in existing homes in the county and low occupancy rates.

Patriots Landing has stated, "Patriots Landing is a planned community primarily for retired career military." [source: rebuttal comments, p10] Patriots Landing failed, however, to provide any evidence that retired career military residents of Pierce County represent an underserved group that must be addressed by the program. In fact, supporters of Patriots Landing noted that the proposed facility is approximately 10 minutes drive from Madigan Army Medical Center. Based on comment provided by supporters of the project, the department concludes that this is a project desired by the retired military community, but no information was provided that would lead the department to conclude that this is a consideration that overcomes basic issues of bed availability in the county.

Need for additional nursing home capacity in “West Pierce County”

The applicant identified “West Pierce County” as the area upon which need for this project should be evaluated. The applicant provided an evaluation of the bed supply in this sub-area, which includes 3 of the 23 SNFs in Pierce County¹⁵. The applicant contended that 26% of Pierce County’s age 65+ population resides in that area and that additional capacity in that area would improve access.

As discussed in the review of the MC-Tacoma project, WAC 246-310-010 states:

“Planning area” means each individual county designated by the department as the smallest geographic area for which nursing home bed need projections are developed, except as follows:

- *Clark and Skamania counties shall be one planning area.*
- *Chelan and Douglas counties shall be one planning area.*

In accordance with WAC, the smallest area for consideration in evaluation of nursing home bed need is an entire county. Consequently, the department is unable to consider the “West Pierce” sub-planning area for purposes of nursing home bed need projections. In addition, a review of the three existing SNFs in this proposed sub-planning area reveals that between 39 and 42 vacant beds were available in those facilities in 2003 and 2004.

Based on the information provided during the review of this project and research by Certificate of Need staff, the department concludes that need for an additional skilled nursing facility in Pierce County is not supported by the data. Further, the applicant failed to demonstrate that existing providers in Pierce County are neither available nor accessible to the residents of the county. As a result, the department concludes that this sub-criterion is not met.

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

As previously stated, both applicants provide health care services to residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups. To determine whether all residents of the service area would continue to have access to an applicant’s proposed services, the department requires applicants to provide a copy of its admission policy. To determine whether low income residents would have access to the proposed services, the department uses the facility’s Medicaid eligibility or contracting with Medicaid as the measure to make that determination.

Manor Care of Tacoma

As previously stated, the subsidiary of MCMP currently operates a variety of health care facilities in Washington State. Through these health care facilities, MCMP provides health care services to residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups. To demonstrate compliance with this sub-criterion, MCMP provided a copy of its current Admission Agreement for MC-Tacoma. A review of the agreement indicates that patients would appropriately be admitted to MC-Tacoma provided that the patient was a candidate for nursing care. [source: Application, Exhibit 8]

¹⁵ Regency at Tacoma Rehab Center, Gerogian Rehab, Lakewood Healthcare Center

Additionally, MCMP provided a copy of the Manor Care Resident Handbook, which is provided to each resident upon admittance to the facility. The handbook states that Manor Care will not discriminate in its admissions decisions based on race, color, religion, sex, national origin, age, mental or physical handicap or communicable or contagious disease. In addition, the resident handbook discusses the patient's right to dignity, respect and personal safety as a resident of MC-Tacoma. [source: November 29, 2004, supplemental information, Attachment 4]

To determine whether low income residents would continue to have access to MC-Tacoma, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. Documentation provided in the application and verified by DSHS indicate that MC-Tacoma currently carries a Medicaid contract, and would continue to carry a Medicaid contract if an addition 20 beds are added to the facility.

Based upon the information provided, the department concludes all residents of the service area currently have access to MC-Tacoma and approval of this project would not negatively affect that access. This sub-criterion is met.

Patriots Landing

To demonstrate compliance with this sub-criterion, the applicant provided a copy of the admissions and transfer and discharge policies currently used by Evergreen Healthcare, the proposed licensee. The policy demonstrates that all residents of the service area would have access to skilled nursing services and patients would be appropriately be admitted to Patriots Landing provided that the patient was a candidate for nursing care. The policy also indicates that patients are admitted to Evergreen Healthcare facilities without regard to race, color, creed, national origin, age sex, religion, handicap, ancestry, marital, veteran status and/or payment source. Additionally, the applicant provided documentation to demonstrate that the facility would provide services to the Medicare and Medicaid patients. [source: Application, Exhibit 9]

Based upon the information provided, the department concludes all residents of the service area would have access to Patriots Landing. This sub-criterion is met.

C. Financial Feasibility (WAC 246-310-220)

Manor Care of Tacoma

Based on the source information reviewed, the department determines that the application is not consistent with the applicable financial feasibility criteria in WAC 246-310-220.

Patriots Landing

Based on the source information reviewed, the department determines that the application is not consistent with the applicable financial feasibility criteria in WAC 246-310-220.

- (1) *The immediate and long-range capital and operating costs of the project can be met.*

Manor Care of Tacoma

As stated earlier, the estimated capital expenditure for this project is \$3,492,830. The project funding source is the cash, cash equivalents and a revolving line of credit available to Manor Care, Inc., the parent company. [source: Application, pp4, 17] To demonstrate Manor Care, Inc.'s commitment to this project, the applicant provided a letter supporting the project

from the parent company's Chief Financial Officer, Mr. Geoffrey G. Meyers. [source: Application, exhibit 9]

Additionally, to determine whether MC-Tacoma could meet its immediate and long range operating costs, the department evaluated MC-Tacoma's projected balance sheets for the first three years of operation as a 144 bed facility. A summary of the balance sheets is shown in Tables IV below: [source: application, Appendix 10; Appendix 11 Schedule B; November 29, 2004 screening responses, attachment 10, attachment 11]

Tables IV
MC-Tacoma Balance Sheet for Projected Years 2007-2009
Year 2007

| Assets | | Liabilities | |
|----------------------|---------------------|-------------------------------------|---------------------|
| Total Current Assets | \$ 1,359,909 | Total Current Liabilities | \$ 507,416 |
| Fixed Assets | \$ 9,658,916 | Other Liabilities | \$ 3,430,553 |
| Accum. Depreciation | (\$ 2,542,518) | Total Liabilities | \$ 3,937,969 |
| | | Equity | \$ 4,538,338 |
| Total Assets | \$ 8,476,307 | Total Liabilities and Equity | \$ 8,476,307 |

Year 2008

| Assets | | Liabilities | |
|---------------------|---------------------|-------------------------------------|---------------------|
| Current Assets | \$ 1,386,965 | Current Liabilities | \$ 514,642 |
| Fixed Assets | \$ 9,698,952 | Other Liabilities | \$ 2,566,829 |
| Accum. Depreciation | (\$ 3,096,515) | Total Liabilities | \$ 3,081,471 |
| | | Equity | \$ 4,907,931 |
| Total Assets | \$ 7,989,402 | Total Liabilities and Equity | \$ 7,989,402 |

Year 2009

| Assets | | Liabilities | |
|---------------------|---------------------|-------------------------------------|---------------------|
| Current Assets | \$ 1,423,040 | Current Liabilities | \$ 523,309 |
| Fixed Assets | \$ 9,749,663 | Other Liabilities | \$ 1,628,744 |
| Accum. Depreciation | (\$ 3,655,583) | Total Liabilities | \$ 2,152,053 |
| | | Equity | \$ 5,365,067 |
| Total Assets | \$ 7,517,120 | Total Liabilities and Equity | \$ 7,517,120 |

In addition to the projected balance sheets provided above, the applicant also provided its Statement of Operations for years 2007 through 2009 as a 144 bed facility. [source: November 3, 2004 screening responses, Exhibit 11, Schedule C] A summary of the Statement of Operations is shown in Table V on the following page:

Table V
MC-Tacoma Operations Summary
Projected Years 2007 through 2009

| | Year One (2007) | Year Two (2008) | Year Three (2009) |
|-----------------------------------|----------------------------|----------------------------|------------------------------|
| # of Beds | 144 | 144 | 144 |
| # of Patient Days | 46,210 | 47,305 | 48,765 |
| % Occupancy | 87.9% | 90.0% | 92.8% |
| Net Revenue | \$11,588,029 | \$11,854,933 | \$12,210,805 |
| Total Expense | \$11,294,651 | \$11,485,340 | \$11,753,667 |
| Net Profit (Loss) | \$293,378 | \$369,593 | \$457,138 |
| Net Revenue per patient day | \$250.77 | \$250.61 | \$250.40 |
| Total Expenses per patient day | \$244.42 | \$242.79 | \$241.03 |
| Net Profit (Loss) per patient day | \$6.35 | \$7.81 | \$9.37 |

As shown in Table V above, MC-Tacoma anticipates it will operate at a profit in the first three years of operation as a 144-bed SNF, with profits increasing each year as demonstrated using the projected utilization.

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of the Department of Social and Health Services. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs--however defined--of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. Direct care, therapy care, support services, operations and variable return component rates for July 1, 2001, through June 30, 2004, are based on 1999 cost reports. Property and financing allowance components are rebased annually. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days--the total of the days in residence at the facility for all eligible residents--for the applicable report

period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is 90%.¹⁶ If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that MC-Tacoma's Medicaid reimbursement rate without the additional 20 beds would be approximately \$132 per patient day. Within MC-Tacoma's pro forma Statement of Operations, the applicant anticipates the addition of 20 beds to the 124-bed facility would result in an increased rate to approximately \$156.50 for years 2007-2009. However, information obtained from the Office of Rates Management indicates that the addition of 20 beds to MC-Tacoma would reduce its Medicaid reimbursement rate to approximately \$124 per patient day.¹⁷ This rate decrease is because the costs for four of the cost components are still based on the 1999 rebase year, when the facility had 124 beds. When Office of Rates Management increases the beds to 144, the cost for the 124 bed facility is divided by 85 to 90% occupancy of a 144 bed facility. The same cost and an increased number of patient days causes the rate per patient day to decrease.

This reduction in Medicaid reimbursement results in a substantial reduction in revenues for years 2007 through 2009 for MC-Tacoma. The department re-calculated the applicant's Statement of Operations with the reduced Medicaid reimbursement which is shown in Table VI below.

Table VII
MC-Tacoma Statement of Operations Summary
Revised Statement of Operations Summary
Projected Years 2007 through 2009

| | Year One (2007) | Year Two (2008) | Year Three (2009) |
|--------------------------------------|-----------------|-----------------|-------------------|
| # of Beds | 144 | 144 | 144 |
| # of Patient Days | 46,210 | 47,305 | 48,765 |
| % Occupancy | 87.9% | 90.0% | 92.8% |
| Net Revenue* | \$10,829,285 | \$11,078,451 | \$11,410,754 |
| Total Expense | \$11,294,651 | \$11,485,340 | \$11,753,667 |
| Net Profit or (Loss) | (\$465,366) | (\$406,889) | (\$342,913) |
| Net Revenue per patient day | \$234.35 | \$234.19 | \$33.99 |
| Total Expenses per patient day | \$244.42 | \$242.797 | \$241.03 |
| Net Profit or (Loss) per patient day | (\$10.07) | (\$8.60) | (\$7.03) |

*Includes deductions for bad debt and contractual allowances

As shown in Table VII above, with the reduced Medicaid reimbursement, MC-Tacoma would be operating at a loss of \$465,366 in year 2007, which decreases to a lost of \$342,913 by the end of year 2009. This loss is based on the facility's ability to reach its projected 92%

¹⁶ For essential community providers--i.e., facilities at least a forty minute drive from the next closest nursing facility--the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. MC-Tacoma would not meet the definition of an essential community provider.

¹⁷ The rates are approximate and are not guaranteed.

occupancy of the 144 beds by the third year of operation as projected by the applicant. If the applicant is unable to meet its projected occupancy levels, then the loss could be greater.

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project may not be met, and the financial viability of Manor Care of Tacoma could be jeopardized if the additional 20 beds are added to the facility. Therefore, this sub-criterion is not met.

Patriots Landing

As stated earlier, the estimated capital expenditure for this project is \$6,800,000. Seventy-five percent of the project funding source anticipated to be in the form of a commercial loan, with the remaining 25% provided by Gene Lynn, the majority shareholder of Patriot's Landing Investment I, LLC, as an equity contribution. [source: Application, pp25, 32; November 30, 2004 screening responses, p10] The applicant provided letters from two commercial banks expressing willingness to provide the necessary funds and detailed the terms of the loans. To demonstrate the proposed licensee's commitment to this project, the applicant provided a letter supporting the project from Evergreen Healthcare Management's president and chief executive officer, Andy V. Martini. [source: Application, exhibit 13] That letter documented Evergreens willingness to fund the start-up costs for the nursing home business from its existing reserves.

Additionally, to determine whether the proposed nursing home could meet its immediate and long range operating costs, the department evaluated Patriots Landing's projected balance sheets for the first three years of operation as an 80 bed facility. A summary of the balance sheets is shown in Tables VII below: [source: application, Appendix 10; Appendix 11 Schedule B; November 29, 2004 screening responses, attachment 10, attachment 11]

**Tables VII
Patriots Landing Balance Sheet for Projected Years 2007-2009
Year 2007**

| Assets | | Liabilities | |
|----------------------|---------------------|-------------------------------------|---------------------|
| Total Current Assets | \$ 582,207 | Total Current Liabilities | \$ 315,000 |
| Fixed Assets | \$ 6,800,000 | Other Liabilities | \$ 4,960,556 |
| Accum. Depreciation | (\$ 213,550) | Total Liabilities | \$ 5,275,556 |
| | | Equity | \$ 1,893,101 |
| Total Assets | \$ 7,168,657 | Total Liabilities and Equity | \$ 7,168,657 |

Year 2008

| Assets | | Liabilities | |
|---------------------|---------------------|-------------------------------------|---------------------|
| Current Assets | \$ 1,152,621 | Current Liabilities | \$ 380,000 |
| Fixed Assets | \$ 6,828,000 | Other Liabilities | \$ 4,880,536 |
| Accum. Depreciation | (\$ 429,233) | Total Liabilities | \$ 5,260,536 |
| | | Equity | \$ 2,290,852 |
| Total Assets | \$ 7,551,388 | Total Liabilities and Equity | \$ 7,551,388 |

Year 2009

| Assets | | Liabilities | |
|---------------------|---------------------|-------------------------------------|---------------------|
| Current Assets | \$ 1,661,477 | Current Liabilities | \$ 386,000 |
| Fixed Assets | \$ 6,856,000 | Other Liabilities | \$ 4,793,490 |
| Accum. Depreciation | (\$ 647,050) | Total Liabilities | \$ 5,179,490 |
| | | Equity | \$ 2,690,937 |
| Total Assets | \$ 7,870,427 | Total Liabilities and Equity | \$ 7,870,427 |

In addition to the projected balance sheets provided above, the applicant also provided its Statement of Operations for years 2007 through 2009 as an 80 bed facility. [source: Application, Exhibit 15] A summary of the Statement of Operations is shown in Table VIII below.

Table VIII
Patriots Landing Operations Summary
Projected Years 2007 through 2009

| | Year One (2007) | Year Two (2008) | Year Three (2009) |
|-----------------------------------|----------------------------|----------------------------|------------------------------|
| # of Beds | 80 | 80 | 80 |
| # of Patient Days | 16,484 | 24,820 | 24,820 |
| % Occupancy | 56.5% | 85% | 85% |
| Net Revenue | \$3,187,962 | \$4,799,559 | \$4,799,559 |
| Total Expense | \$3,294,861 | \$4,136,641 | \$4,132,750 |
| Net Profit (Loss) | (\$106,899) | \$662,918 | \$666,809 |
| Net Revenue per patient day | \$193.40 | \$193.37 | \$193.37 |
| Total Expenses per patient day | \$199.88 | \$166.67 | \$166.51 |
| Net Profit (Loss) per patient day | (\$6.49) | \$26.71 | \$26.87 |

As shown in Table VIII above, Patriots Landing anticipates it will operate at a loss in the first full year of operation, with profits increasing by the second and third full years of operation as demonstrated using the projected utilization

In Washington State, Medicaid nursing facility rates are set by the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of the Department of Social and Health Services. Medicaid rates for long term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed. The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs--however defined--of providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Variable return - an incentive payment for relative efficiency

- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. Direct care, therapy care, support services, operations and variable return component rates for July 1, 2001, through June 30, 2004, are based on 1999 cost reports. Property and financing allowance components are rebased annually. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days--the total of the days in residence at the facility for all eligible residents--for the applicable report period. Resident days are subject to minimum occupancy levels. Effective July 1, 2002, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; for operations, financing allowance, and property component rates, the minimum occupancy rate is 90%.¹⁸ If resident days are below the minimum, they are increased to the imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that Patriots Landing's Medicaid reimbursement rate would be approximately \$180 per patient day. Within the pro forma Statement of Operations, Patriots Landing projected the reimbursement rate to be approximately \$165

This increase in Medicaid reimbursement results in a substantial increase in revenues for years 2007 through 2009 for Patriots Landing. The department re-calculated the applicant's Statement of Operations with the increased Medicaid reimbursement which is shown in Table IX on the following page:

¹⁸ For essential community providers--i.e., facilities at least a forty minute drive from the next closest nursing facility--the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state. MC-Tacoma would not meet the definition of an essential community provider.

Table IX
Patriots Landing Revised Operations Summary
Projected Years 2007 through 2009

| | Year One (2007) | Year Two (2008) | Year Three (2009) |
|-----------------------------------|----------------------------|----------------------------|------------------------------|
| # of Beds | 80 | 80 | 80 |
| # of Patient Days | 16,484 | 24,820 | 24,820 |
| % Occupancy | 56.5% | 85% | 85% |
| Net Revenue | \$3,367,151 | \$5,042,303 | \$5,042,303 |
| Total Expense | \$3,294,861 | \$4,136,641 | \$4,132,750 |
| Net Profit (Loss) | \$72,290 | \$905,662 | \$909,553 |
| Net Revenue per patient day | \$204.27 | \$203.15 | \$203.15 |
| Total Expenses per patient day | \$199.88 | \$166.67 | \$166.51 |
| Net Profit (Loss) per patient day | \$4.39 | \$36.49 | \$36.65 |

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project would be met, and the financial viability of Patriots Landing would be acceptable with 80 beds. Therefore, this sub-criterion is met.

- (2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

To assist the department in its evaluation of this sub-criterion, Office of Rates Management, within DSHS provides summary of the reasonableness of building construction costs, which includes a building lid calculation. The building lid calculation is determined by:

- 1) locating the class of construction (A, B, C, D) and quality of construction (good, average, low) and multiplying by the number of beds proposed by the appropriate per bed base cost; and
- 2) identifying the appropriate base cost for the facility (using the same class and quality of construction).

These figures are added to determine the construction cost lids. Final lid values will be adjusted for inflation using the actual charge in the appropriate cost indexes. Additionally, *"the building lid only affects the property and finance allowance components of the Medicaid rate."*¹⁹ [source: Office of Rates Management evaluations]

Below is a summary of the Office of Rates Management review for both projects.

Manor Care of Tacoma

The building lid calculation for the addition of 20 beds to MC-Tacoma is determined to be \$10,053,065. Total construction expenditures for this project are \$3,492,830, as a result, the amount over the building lid is determined to be zero.

The per patient day costs were compared to the year 2003 and 2004 costs of the SNFs currently operating in Pierce County. Based on that comparison, MC-Tacoma's per patient day costs are comparable to facilities located in the county; therefore, MC-Tacoma's costs do not appear to be unreasonable. [source: 2003 and 2004 DSHS cost report summaries]

¹⁹ The building lid calculation is an estimate based on information from a CN application. The calculation of the lid does not guarantee the inclusion of any costs considered in the calculation within the Medicaid rate [per DSHS]

In the need section of this evaluation, the department concluded that the applicant failed to demonstrate that existing providers are not available or accessible to meet the need identified within the application. Given that the project is not necessary, the department also concludes that the costs of this project may result in an unreasonable impact on the costs and charges for health services in the community. This sub-criterion is not met.

Patriot's Landing

The building lid calculation for the construction of a new 80-bed SNF as proposed by the applicant is determined to be \$5,939,906. Total construction expenditures for this project is \$5,660,400, as a result, the amount over the building lid is also determined to be zero.

The per patient day costs were compared to the year 2003 and 2004 costs of the 23 SNFs currently operating in Pierce County. Based on that comparison, Patriots Landing's per patient day costs are comparable to facilities located in the county; therefore, Patriots Landing's costs do not appear to be unreasonable. [source: 2003 and 2004 DSHS cost report summaries]

In the need section of this evaluation, the department concluded that the applicant failed to demonstrate that existing providers are not available or accessible to meet the need identified within the application. Given that the project is not necessary, the department also concludes that the costs of this project may result in an unreasonable impact on the costs and charges for health services in the community. This sub-criterion is not met.

(3) The project can be appropriately financed.

Manor Care of Tacoma

The capital expenditure associated with the construction of the additional capacity at MC-Tacoma is estimated to be \$3,492,830. [source: November 29, 2004, supplemental information, Attachment 10] A breakdown of the capital expenditure associated with this project is shown below: [source: November 29, 2004 supplemental information, Appendix 10]

| Item | Amount |
|--------------------------------------|---------------------|
| Construction Costs | \$ 2,138,150 |
| Land Improvements & Site Preparation | 237,545 |
| Equipment (Fixed and Moveable) | 366,225 |
| Corporate Overhead | 263,965 |
| Washington State Sales Tax | 220,385 |
| Fees | 266,560 |
| TOTAL | \$ 3,492,830 |

The source of financing for the project will be from Manor Care, Inc. cash reserves. [source: November 29, 2004, supplemental information, pp10-12] To confirm Manor Care, Inc.'s commitment to fund the project, the applicant provided a letter of support from the Chief Financial Officer, assuring the financing for the total development of MC-Tacoma. Effective December 31, 2003, Manor Care, Inc. had \$86.2 million in cash and cash equivalents. [source: Application, Exhibit 9] To demonstrate compliance with this sub-criterion, MCMP provided Manor Care, Inc.'s most recent two-year historical financial documentation. [source: Application, Exhibit 10] Those documents confirm that Manor Care, Inc. currently has the funds to finance the project, and this project would not adversely affect the financial stability of Manor Care, Inc.

As of the writing of this evaluation, Manor Care, Inc. or one of its subsidiaries has four projects under Certificate of Need review in Washington State. Of those four projects, two propose to establish new 120 bed SNFs--one in Clark County and one in Thurston County; the remaining two projects each propose to add beds to an existing SNF—this project in Pierce County and a 27 bed addition in Snohomish County. Within all four applications, Manor Care, Inc. proposes to fund all four projects through its cash reserves. When combined, these four projects total to \$30,553,820.

To evaluate whether Manor Care Inc. has the funds available for this project, and its other projects proposed in Washington State, the department reviewed Manor Care, Inc.'s most recent consolidated balance sheet for year 2004. [source: Manor Care, Inc. website] A summary of the balance sheet is shown below.

Year 2004

| Assets | | Liabilities | |
|---------------------|-------------------------|-------------------------------------|-------------------------|
| Current Assets | \$ 540,367,000 | Current Liabilities | \$ 402,254,000 |
| Fixed Assets | \$ 1,495,152,000 | Other Liabilities | \$ 954,285,000 |
| Other Assets | \$ 305,179,000 | Total Liabilities | \$ 1,356,539,000 |
| | | Equity | \$ 984,159,000 |
| Total Assets | \$ 2,340,698,000 | Total Liabilities and Equity | \$ 2,340,698,000 |

This project's costs of \$3,492,830 represent .15% of Manor Care, Inc.'s total assets, and 10.6% of its \$32,915,000 in cash and cash equivalents. For all four projects currently under review in Washington State, \$30,553,820 represents 1.3% of the total assets, and 93% of Manor Care, Inc.'s cash and cash equivalents.

Based on the above information, the department concludes that funding for this project is available based on the 2004 financial data. At this time, while Manor Care, Inc has several projects undergoing construction, renovation, or modification, it appears that its Washington State projects could be funded. This sub-criterion is met.

Patriots Landing

The capital expenditure associated with the development and construction of Patriots Landing is estimated to be \$6,800,000. [source: November 4, 2004, supplemental information, Exhibit 11] A breakdown of the capital expenditure associated with this project is shown on the following page: [source: Application, p25]

| Item | Amount |
|----------------------------------|---------------------|
| Construction Costs | \$ 4,137,720 |
| Land Purchase & Site Preparation | 350,000 |
| Equipment (Fixed and Moveable) | 640,000 |
| Costs Associated with Financing | 374,000 |
| Fees & Permits | 899,785 |
| Washington State Sales Tax | 398,495 |
| TOTAL | \$ 6,800,000 |

As stated earlier, the estimated capital expenditure for this project is \$6,800,000. Seventy-five percent of the project funding source anticipated to be in the form of a commercial loan, with the remaining 25% provided by Gene Lynn, the majority shareholder of Patriot's

Landing Investment I, LLC, as an equity contribution. [source: Application, pp25, 32; November 30, 2004 screening responses, p10] The applicant provided letters from two commercial banks expressing willingness to provide the necessary funds and detailed the terms of the loans. To demonstrate the proposed licensee's commitment to this project, the applicant provided a letter supporting the project from Evergreen Healthcare Management's president and chief executive officer, Andy V. Martini. [source: Application, exhibit 13] That letter documented Evergreens willingness to fund the start-up costs for the nursing home business from its existing reserves.

Effective December 31, 2003, Careage Healthcare of California had \$133,586 in cash and cash equivalents, with total current assets of \$4.4 million. [source: November 30, 2004 screening responses, Attachment 7] To demonstrate compliance with this sub-criterion, Patriots Landing provided Careage's most recent two-year historical financial documentation. [November 30, 2004 screening responses, Attachment 7] The applicant noted that TCO, LLC was formed in 2003 and did not have a full year of historical data. No financial statements for TCO were submitted during the course of the review.

As noted earlier, Patriots Landing did provide two letters from lenders that confirm those lenders' willingness to provide financing to Patriots Landing. Those documents confirm that the applicant is likely to be able to obtain funding for 75% of the required capital investment.

As stated in the project description portion of the application, Patriot's Landing Investment I, LLC, is entirely owned by TCO, LLC. TCO is, in turn owned by Gene E. Lynn (48.24%), Traci Lynn (9.82%), and Careage Healthcare of California, Inc. (41.94%). Gene E. Lynn is the sole owner of Careage Healthcare of California. Because the applicant failed to provide the requested financial information from TCO, LLC, the department is unable to evaluate that entity's ability to fund the proposed project.

Based on the documentation provided in the application, the department concludes that this sub-criterion is not met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Manor Care of Tacoma

Based on the source information reviewed, the department determines that the application is not consistent with the applicable structure and process of care criteria in WAC 246-310-230.

Patriots Landing

Based on the source information reviewed, the department determines that the application is not consistent with the applicable structure and process of care criteria in WAC 246-310-230.

- (1) *A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.*

Manor Care of Tacoma

As previously stated, Manor Care, Inc. is the second largest provider of long term services in the nation, owning/operating over 300 nursing homes and assisted living facilities in 32 states through its subsidiaries. [source: Manor Care Website at www.hcr-ManorCare.com]

MC-Tacoma is currently operating as a 124-bed facility, and as such, is currently staffed to accommodate the types of patients served. If this project is approved, MCMP anticipates an overall increase of 12.7 FTEs for years 2007 – 2009. Table X below shows the breakdown of FTEs [source: application, p22]

Table X
MC-Tacoma Current and Projected FTEs

| FTE | Current | Projected Increase | 2009 Total |
|--------------------------------|---------------|--------------------|---------------|
| RNs | 6.75 | --no increase-- | 6.75 |
| LPN | 14.50 | 4.00 | 18.50 |
| Nurses Aides & Assistants | 42.00 | 6.70 | 18.70 |
| Dietary Total | 12.75 | 1.50 | 14.25 |
| Administration Total | 24.50 | .50 | 25.00 |
| All Others Total ²⁰ | 19.00 | --no increase-- | 19.00 |
| Total FTE's | 119.50 | 12.70 | 132.20 |

As shown in Table X above, MCMP expects to recruit approximately 12.7 additional FTEs to accommodate the additional patients as a 144 bed facility. In addition to the FTEs above, MC-Tacoma currently contracts approximately 18 positions related to medical director, therapists, and pharmacists. With an additional 20 beds, MC-Tacoma does not anticipate an increase its contracted positions.

To assure the department of MCMP's recruitment qualifications, the applicant provided a comprehensive staffing policy and procedure. Manor Care, Inc. has a total of over 400 types of centers/facilities and over 30 years of experience in staff recruitment. Historically, Manor Care, Inc. has staffed its facilities by a using a variety of alternatives, e.g. bonuses, scholarships, tuition reimbursement programs, transfer opportunities, affiliations with nursing schools and participation in a National advertising campaign. [source: Application, Exhibit 13] On review of the policy and procedure, the department concludes that the applicant's national presence offers reasonable assurance of Manor Care, Inc.'s staffing capability.

Based on the information provided in the application, the department concludes that MCMP provided a comprehensive approach to recruit and retain staff necessary for the additional 20 beds. Additionally, as previously stated, the department compared years 2003 and 2004 average nursing hours per patient day for the currently operating Pierce County SNFs, which includes MC-Tacoma. That comparison revealed that MC-Tacoma's projected nursing hours per patient day are comparable to the county's average (see Table II within this evaluation).

Based on the above evaluation and information provided in the application, the department concludes that qualified staff can be recruited. This sub-criterion is met.

Patriots Landing

Table XI, on the following page, summarizes the projected number of FTEs to staff the 80 bed Patriots Landing SNF in the third year of operation, with 85% projected occupancy. [source: Application, page 38]

²⁰ All others include therapy staff, admission/marketing staff, and activity assistants.

Table XI
Patriots Landing Projected FTEs

| Staff | Projected FTEs |
|---------------------------------|-----------------------|
| RN | 3.7 |
| LPN | 3.7 |
| Nurses Aides & Assistants | 19.0 |
| Dietitians | 1.0 |
| Aides | 2.9 |
| Administrator | 1.0 |
| Activities Director & Assistant | 1.0 |
| Medical Director | Contract |
| Director of Nursing | 1.0 |
| In-Service Director | 1.0 |
| Housekeeping/Maintenance | 2.8 |
| Laundry | 1.1 |
| Business Office | 2 |
| Physical Therapist & Aides | Contract |
| Occupational Therapist & Aides | Contract |
| Medical Records | 1.0 |
| Social Worker | 1.0 |
| Plant Engineer | 1.0 |
| Other (Admission, Assess.) | 1.0 |
| Total FTEs | 44.2 |

To assure the department of Evergreen Healthcare's recruitment qualifications, the applicant provided a summary of the practices and strategies that have enabled Evergreen to recruit and retain adequate staff. Evergreen states that it focuses on five components of employment: Recruitment, orientation and training, the working environment, compensation and benefits, and professional development. [source: November 30, 2004, screening responses, pp12-15]

On review of the policy and procedure, the department concludes that the applicant's strategies, in conjunction with two of Evergreen's subsidiaries that specialize in executive recruitment and nursing staffing, offer reasonable assurance of Evergreen's staffing capability.

Based on the above evaluation and information provided in the application, the department concludes that qualified staff is available or can be recruited. This sub-criterion is met.

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

Manor Care of Tacoma

Manor Care, Inc. is an established provider of SNF services in Pierce County, as such; ancillary and support services are already established. MCMP states, "Manor Care of Tacoma provides all necessary ancillary and support services within the facility. As one of

the largest providers of long-term care services in the nation, Manor Care, Inc., ...has the resources to fully staff and operate these ancillary service programs.” [source: application, page 23] The applicant did not provide any current or proposed agreements for obtaining such services from other providers.

Based on the above information provided in the application, the department concludes that MC-Tacoma will continue to have appropriate relationships with ancillary and support services as a 144 bed SNF. This sub-criterion is met.

Patriots Landing

Patriots Landing states, *“Evergreen already maintains working relationships with vendors from throughout the area to provide the ancillary and support services required to manage all phases of patient care. These existing working relationships will be expanded to include Patriots Landing.”* [source: application, p40] In its responses to the department’s screening questions, the applicant listed the various types of vendors a SNF with which a SNF would contract: Food vendors; health care providers such as physicians, dentists, optometrists, podiatrists, and mental health specialists. The applicant also noted that Evergreen partners with senior centers, churches, and social service and charitable organizations to ensure access to necessary services for its residents. No current or proposed agreements for obtaining such services were provided to the department.

Based on the information provided in the application, the department concludes that Patriots Landing intends to meet this requirement; however, if this project were to be approved, to ensure that appropriate agreements will be established, the applicant would be required to agree to the following term:

Prior to providing services at Patriots Landing, the applicant will provide functional plans outlining the services to be provided through Evergreen Healthcare and those that would be provided within Pierce County.

Provided that the applicant would agree to the term outlined above, the department would conclude that there is reasonable assurance that Patriots Landing would have appropriate ancillary and support services, and this sub-criterion would be met.

- (3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

Manor Care of Tacoma

As stated in the project description portion of this evaluation, Manor Care of Meadow Park, Inc. is located in Delaware and is the operating group of Manor Care, Inc, an owner and operator of long term health care centers in the United States. As of the writing of this evaluation, Manor Care, Inc. has over 500 skilled nursing centers, assisted living facilities, outpatient rehabilitation clinics, and hospice and home health offices in 33 states.²¹ The majority of the health care facilities are operated under the names of, or dba of, Manor Care, Arden Courts, Springhouse, and Heartland.

²¹ States include: Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, North Carolina, North Dakota, Nevada, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wisconsin.

To evaluate this sub-criterion, the department requested quality of care histories from the states where HCR Manor Care, or any of its subsidiaries, owns or operates healthcare facilities--which represents a total of 571 health care facilities. Of the 33 states, 20 states provided detailed documentation related to the quality care history and 13 states did not respond.²² The 20 states that responded represent 440 healthcare facilities--or 77% of the 571 facilities owned or operated by HCR Manor Care, or its subsidiaries. Of the 20 states that responded, nine indicated significant non-compliance issues²³ at one or more of the healthcare facilities operated by HCR Manor Care or one of its subsidiaries.²⁴ There are a total of 121 facilities within the nine states, and of those, 24 facilities--or 20%--indicated significant non-compliance issues that were subsequently corrected by HCR Manor Care or one of its subsidiaries. Further, the majority of the significant non-compliance citations related to isolated incidences and did not represent immediate jeopardy to patients. [source: compliance survey data provided by each state agency] According to documents provided by the out-of-state licensing agencies, HCR Manor Care resolved the significant non-compliance issues and no disciplinary actions were taken by the out-of-state surveying agencies.

As stated in the project description portion of this evaluation, HCR Manor Care owns or operates four skilled nursing facilities and Heartland owns or operates two in-home services agencies in Washington State. A review of the quality of care histories from those six healthcare facilities for years 2001 through 2004 revealed no significant non-compliance issues at any of the six facilities.

Based on the above information, the department concludes that there is reasonable assurance that Manor Care of Tacoma would operate in conformance with applicable state and federal licensing and certification requirements as a 144 bed facility. This sub-criterion is met.

Patriots Landing

As stated in the project description portion of this evaluation, the owners of Patriots Landing, Gene Lynn and/or Careage, own or manage 16 healthcare facilities in Washington and California. In addition, Evergreen Healthcare, the parent organization of the proposed licensee, Evergreen at DuPont, LLC, operates 61 SNFs in 7 western states.

To evaluate this sub-criterion, the department requested quality of care histories from the states where Careage, Evergreen, or any of their subsidiaries, owns or operates healthcare facilities--which represents a total of 59 health care facilities²⁵. Of the 7 states, 3 states provided detailed documentation related to the quality care history and 4 states did not respond.²⁶ The 3 states that responded represent 41 SNF facilities--or 64% of the 64 SNF facilities owned or operated by the two applicant entities. Each of the 3 states that

²² States that did not respond: Arizona, Georgia, Kentucky, Maryland, Missouri, North Dakota, New Jersey, New Mexico, Oklahoma, South Carolina, South Dakota, Texas, and Virginia.

²³ For purposes of this evaluation, 'significant' non-compliance issues are defined as: 1) substandard care citations resulting in F-tags with scope and severity level "H" or above; 2) immediate jeopardy citations F-tags with scope and severity level "J" or above; and 3) surveys resulting in state or federal remedies (typically received for continued non-compliance beyond timeframes allowed in state or federal regulations).

²⁴ States indicating significant non-compliance issues: California, Colorado, Connecticut, Indiana, Iowa, Michigan, Nevada, Tennessee, and West Virginia

²⁵ Two Careage-owned SNFs are currently managed by Evergreen: Evergreen North Cascades Health & Rehab Center, Bellingham, WA; and Evergreen Carmel Mountain Health and Rehabilitation, San Diego, CA.

²⁶ States that did not respond: Oregon, Arizona, Montana, Utah.

responded indicated significant non-compliance issues²⁷ at one or more of the healthcare facilities operated by Careage, Evergreen, or one of their subsidiaries.²⁸

The California Department of Health Services provided data reporting that from 2003 through 2005, Evergreen facilities were cited for four “J” level deficiencies. In that same time period, California issued three citations to Evergreen SNFs for class “A” violations *“which the state department determines present either (1) imminent danger that death or serious harm to the patients of the long-term health care facility would result therefrom, or (2) substantial probability that death or serious physical harm to patients of the long-term health care facility would result therefrom.”* California also issued one “AA” citation to an Evergreen SNF. Class “AA” violations are *“violations which meet the criteria for a class “A” violation and which the state department determines to have been a direct proximate cause of death of a patient of a long term health care facility.”* [source: compliance survey provided by California Department of Health Services]

The Nevada State Health Division provided data showing that one Evergreen SNF had been cited for a total of two “H” and one “I” level deficiencies in 2003. Two Evergreen SNFs in Nevada have been fined and placed on “Denial of Payment for New Admissions” status because of deficiencies. Nevada’s compliance survey noted that two Evergreen facilities in particular had experienced “histories of significant deficiencies” but were improving. That survey also noted *“All Evergreen facilities seem to have staffing problems (retention).”* [source: compliance survey provided by Nevada State Health Division]

The Washington Department of Social and Health Services (DSHS), Aging and Disability Services Administration, Office of Nursing Home Compliance reported that 13 of the 14 Evergreen SNFs in Washington have recent history of significant non-compliance issues. Of those 13 SNFs, 8 had been cited for level “G” deficiencies on two consecutive surveys, two had been cited for level “H” deficiencies, one had been cited for level “J” citations, and one had been placed on “Denial of Payment for New Admissions” status.

DSHS also noted that both of the SNFs operated by Careage in Washington have experienced significant non-compliance issues in the last three years. One SNF has been cited for level “J” deficiencies, the other for two consecutive level “G” deficiencies.

In an effort to determine whether the deficiencies discussed above are isolated incidents, the department accessed historical survey data from the Centers for Medicare and Medicaid Services (CMS) “Nursing Home Compare” website for all identified Evergreen facilities in all 7 states. The data on this website contains up to the three most recent surveys for each facility, with deficiencies rated on a scale from 1-4, ranging from “Potential for Minimum Harm” to “Immediate Jeopardy.” For the 61 Evergreen SNFs in all 7 states, 59 had three surveys in the database, one had two surveys, and one had only one survey, for a total of 180 surveys. The results of those surveys revealed that Evergreen SNFs received a total of 154 citations for “Actual Harm” (level 3) and 21 citations for “Immediate Jeopardy” (level 4). [source: CMS “Nursing Home Compare” website, accessed at <http://www.medicare.gov/NHCompare>]

²⁷ For purposes of this evaluation, ‘significant’ non-compliance issues are defined as: 1) substandard care citations resulting in F-tags with scope and severity level “H” or above; 2) immediate jeopardy citations F-tags with scope and severity level “J” or above; and 3) surveys resulting in state or federal remedies (typically received for continued non-compliance beyond timeframes allowed in state or federal regulations).

²⁸ States indicating significant non-compliance issues: California, Washington, Nevada

Based on the above information, the department cannot conclude that there is reasonable assurance that Patriots Landing would operate in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is not met.

- (4) *The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.*

Manor Care of Tacoma

In addition to the ancillary and support services in the previous sub-section, MC-Tacoma currently has a transfer agreement with ten hospitals located in Pierce and King counties. Further, MC-Tacoma has agreements with local home health, home care, and hospice agencies within Snohomish and King counties. [source: Application, Exhibit 18]

To further demonstrate continuity with the area's health care system, the applicant provided its most recent three year historical placement of patients after discharge from the facility. That data revealed that the majority of MC-Tacoma's patients are discharged home or home with home health services. [source: Application, p24]

However, in the need section of this evaluation, the department concluded that the applicant failed to demonstrate that existing providers within Pierce County are not available or accessible to meet the need identified within the application. Therefore, need for an additional 20 beds in Pierce County has not been demonstrated. As a result, the department must also conclude that approval of this project has the added potential of fragmentation of skilled nursing services within the service area. Therefore, this sub-criterion is not met.

Patriots Landing

In addition to the ancillary and support services in the previous sub-section, Patriots Landing states, "Patriots Landing is the skilled nursing component of a larger continuing care retirement community (CCRC) "look-alike campus". By its very design, the Community embodies continuity of care." [source: Application, p42] The applicant goes on to note that it anticipates a "significant number" of residents of the larger Patriots Landing community will use the SNF following acute care hospital discharge and will then be discharged to their homes or assisted living settings or to home health, hospice, or personal care assistance. The applicant also noted that the proposed site is 7 miles from Madigan Army Medical (MAMC) Center and nine miles from the Veterans Administration hospital at American Lake, in Lakewood. The applicant did not identify any other hospitals or health care providers (such as home health, hospice, or home care) with which it intends to contract.

When asked about Patriots Landing plans to address continuity of care for residents that are ineligible for or unwilling to use MAMC or the VA American Lake facilities, the applicant noted "*nearly 75% of those that have expressed an interest in the retirement campus are non-military.*" [source: November 30, 2004, screening responses, p22] Patriots Landing did not provide any explanation of how it would address continuity of care for that 75% of those that expressed interest in the campus.

In the need section of this evaluation, the department concluded that the applicant failed to demonstrate that existing providers within Pierce County are not available or accessible to meet the need identified within the application. Therefore, need for an additional 80 beds in Pierce County has not been demonstrated. As a result, the department must also conclude

that approval of this project has the added potential of fragmentation of skilled nursing services within the service area. Therefore, this sub-criterion is not met.

- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is addressed in sub-section (3) above.

D. Cost Containment (WAC 246-310-240)

Manor Care of Tacoma

Based on the source information reviewed, the department determines that the application is not consistent with the applicable cost containment criteria in WAC 246-310-240.

Patriots Landing

Based on the source information reviewed, the department determines that the application is not consistent with the applicable cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

Manor Care of Tacoma

In response to this sub-criterion, the applicant reviewed the following alternatives for this project. [source: application, pp24-25]

Do nothing

This alternative was rejected due to the applicant's of a large projected growth in the age 75+ and 85+ population of Pierce County.

Purchase or lease an existing nursing center

MCMP rejected this alternative because it would not increase the county's supply of available SNF beds.

Construct a new facility

MCMP states: "Construction of a free-standing nursing home is generally regarded as more costly than adding beds to an existing facility. Since Manor Care of Meadow Park Inc. operates Manor Care of Tacoma in Pierce County, this alternative was rejected in favor of adding beds to Manor Care of Tacoma".

The department notes that while the applicant identified the three options above, option 3 requires prior Certificate of Need review and approval. For Certificate of Need applications for additional skilled nursing beds, regardless of whether it is a bed addition to an existing facility or the establishment of a new facility, an applicant must demonstrate that need exists for the additional bed capacity and existing providers are neither available nor accessible.

For this project, when applying the numeric methodology, the department and the applicant both concluded that Pierce County was under the target 40/1,000 bed to population ratio. However, as previously stated, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population.

An applicant must also demonstrate that the existing providers are not available or accessible to meet the skilled nursing need of the county [WAC 246-310-210(1)]. In the need section of this evaluation, the department concluded that documents within the application do not meet this sub-criterion.

Based on the lack of demonstrated need and lack of consideration of other options or available alternative under the sub-criterion, the department must also conclude that the addition of 20 beds to MC-Tacoma is not justified. Therefore, this sub-criterion is not met.

Patriots Landing

In response to this sub-criterion, the applicant reviewed the following alternatives for this project. [source: application, page 43]

Do nothing

This alternative was rejected due to the applicant's assertion that the existing skilled nursing facilities are not sufficiently available to serve Pierce County residents.

Establish referral relationships with existing West Pierce nursing homes to meet the needs of Patriots Landing residents

The applicant rejected this alternative for the reason stated above, and because of its assertion that the proposed "West Pierce" sub-planning area is experiencing a greater shortage of SNF beds than the county as a whole.

Develop a larger or smaller SNF on the Patriots Landing Campus

The applicant discussed its rationale for choosing to propose an 80 bed facility, rather than a larger and potentially more efficient facility. The applicant states that a smaller facility than proposed is not efficient as the size proposed, while a larger facility was deemed incompatible with the greater Patriots Landing campus.

The department notes that while the applicant identified the three options above, option 3 requires prior Certificate of Need review and approval. For Certificate of Need applications for new nursing facilities, regardless of capacity, an applicant must demonstrate that need exists for the additional bed capacity and existing providers are neither available nor accessible.

For this project, when applying the numeric methodology, the department and the applicant both concluded that Pierce County was under the target 40/1,000 bed to population ratio. However, as previously stated, the numeric methodology is a population based assessment to determine the baseline supply of nursing home beds within the state and a county to determine whether the existing number of beds is adequate to serve the elderly population. An applicant must also demonstrate that the existing providers are not available or accessible to meet the skilled nursing need of the county [WAC 246-310-210(1)]. In the need section of this evaluation, the department concluded that documents within the application do not meet this sub-criterion.

Based on the lack of demonstrated need and lack of consideration of other options or available alternative under the sub-criterion, the department must also conclude that the establishment of a new 80-bed nursing facility is not justified. Therefore, this sub-criterion is not met.

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable;

Manor Care of Tacoma

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was not met, therefore, this sub-criterion would also be considered not met.

Patriots Landing

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was not met, therefore, this sub-criterion would also be considered not met.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

Manor Care of Tacoma

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was not met, therefore, this sub-criterion would also be considered not met.

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable. However, given the lack of demonstrated need for an additional 20 beds in Pierce County, the department must conclude that approval of this project would have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

Patriots Landing

This sub-criterion is also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was not met, therefore, this sub-criterion would also be considered not met.

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are reasonable. However, given the lack of demonstrated need for an additional 80 beds in Pierce County, the department must conclude that approval of this project would have an unreasonable impact on the costs and charges to the public of providing health services by other persons.